

# **REPORT OF THE AUDIT OF THE KENTUCKY VALLEY EDUCATIONAL COOPERATIVE**

**For The Fiscal Year Ended  
June 30, 2003**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary, Finance and Administration Cabinet

Gene Wilhoit, Commissioner, Department of Education

Robert S. Sherman, Director, Legislative Research Commission

Dale Duvall, Executive Director, Kentucky Valley Educational Cooperative

Board of Directors of the Kentucky Valley Educational Cooperative

The enclosed report prepared by Carpenter, Mountjoy & Bressler, PSC, Certified Public Accountants, presents the financial statements of the Kentucky Valley Educational Cooperative, Hazard, Kentucky, as of June 30, 2003.

We engaged Carpenter, Mountjoy & Bressler, PSC to perform the financial audit of this educational cooperative. We worked closely with the firm during our report review process; Carpenter, Mountjoy & Bressler, PSC evaluated the Kentucky Valley Educational Cooperative's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen  
Auditor of Public Accounts

Enclosure





Financial Statements

**KENTUCKY VALLEY EDUCATIONAL COOPERATIVE**

June 30, 2003



# KENTUCKY VALLEY EDUCATIONAL COOPERATIVE

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# Carpenter, Mountjoy & Bressler

Certified Public Accountants and Advisors

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Kentucky Valley Educational Cooperative  
Hazard, Kentucky

We have audited the accompanying statement of financial position of the Kentucky Valley Educational Cooperative (a non-profit organization) as of June 30, 2003, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kentucky Valley Educational Cooperative as of June 30, 2003, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 15, 2003, on our consideration of Kentucky Valley Educational Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statement of Kentucky Valley Educational Cooperative taken as a whole. The accompanying supplementary information shown on page 8 is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards on page 9 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Carpenter, Mountjoy & Bressler, PSC*

Louisville, Kentucky  
December 15, 2003

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**KENTUCKY VALLEY EDUCATIONAL COOPERATIVE**

**STATEMENT OF FINANCIAL POSITION**

June 30, 2003

**ASSETS**

Accounts receivable	<u>\$ 472,867</u>
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**LIABILITIES**

Bank overdraft	\$ 70,086
Accounts payable	<u>70,749</u>

<b>Total liabilities</b>	140,835
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**NET ASSETS**

Unrestricted	
Designated for sick leave	24,344
Undesignated	<u>307,688</u>

332,032

<b>Total liabilities and net assets</b>	<u>\$ 472,867</u>
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See accompanying independent auditor's report  
and notes to financial statements

# KENTUCKY VALLEY EDUCATIONAL COOPERATIVE

## STATEMENT OF ACTIVITIES

Year ended June 30, 2003

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Support and Revenue</b>			
Local/district	\$ 194,298	\$ 675,137	\$ 869,435
State grants	-	971,809	971,809
Federal grants	-	1,477,644	1,477,644
Net assets released from restrictions	<u>3,124,590</u>	<u>(3,124,590)</u>	<u>-</u>
<b>Total support and revenue</b>	3,318,888	-	3,318,888
<b>Expenditures</b>			
Certified salaries	1,651,685	-	1,651,685
Classified personnel	623,579	-	623,579
FICA tax	32,592	-	32,592
Medicare tax	34,373	-	34,373
Teacher retirement	80,035	-	80,035
County retirement	47,505	-	47,505
Unemployment	20,758	-	20,758
Stipends	2,383	-	2,383
Professional services	31,769	-	31,769
Contract (evaluation)	1,201	-	1,201
Operations (electric & phone)	36,570	-	36,570
Copier	12,908	-	12,908
Phone	18,385	-	18,385
Postage	2,025	-	2,025
Printing and publishing	8,210	-	8,210
Travel	28,833	-	128,833
Supplies	319,173	-	319,173
Furniture	7,687	-	7,687
Computers	54,238	-	54,238
Equipment	62,497	-	62,497
Registrations	3,982	-	3,982
Tag/project read obligations	70,168	-	70,168
Miscellaneous	48,379	-	48,379
Professional development	17,437	-	17,437
Interest	<u>292</u>	<u>-</u>	<u>292</u>
<b>Total expenditures</b>	<u>3,316,664</u>	<u>-</u>	<u>3,316,664</u>
<b>Increase in Net Assets</b>	2,224	-	2,224
<b>Net Assets, Beginning of Year</b>	<u>329,808</u>	<u>-</u>	<u>329,808</u>
<b>Net Assets, End of year</b>	<u>\$ 332,032</u>	<u>\$ -</u>	<u>\$ 332,032</u>

See accompanying independent auditor's report  
and notes to financial statements

**KENTUCKY VALLEY EDUCATIONAL COOPERATIVE**

**STATEMENT OF CASH FLOWS**

Year ended June 30, 2003

**Cash Flows Provided By Operating Activities**

Increase in net assets	\$ 2,224
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Decrease in accounts receivable	87,779
Decrease in accounts payable	<u>(83,203)</u>

**Net cash provided by operating activities** 6,800

**Cash Flows Used By Financing Activities**

Receipt of loan proceeds	75,000
Principal payments on loan	<u>(75,000)</u>

**Net cash provided by financing activities** -

**Net Increase in Cash** 6,800

**Bank Overdraft, Beginning of year** (76,886)

**Bank Overdraft, End of year** \$ (70,086)

See accompanying independent auditor's report  
and notes to financial statements

## KENTUCKY VALLEY EDUCATIONAL COOPERATIVE

### NOTES TO FINANCIAL STATEMENTS

June 30, 2003

#### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature Of Operations: Kentucky Valley Educational Cooperative (the Cooperative) is a non-profit corporation established to serve the local boards of education in the following counties: Breathitt, Knott, Lee, Leslie, Letcher, Magoffin, Owsley and Wolfe. Additionally, Jackson Independent, Jenkins Independent, and Hazard Independent Schools, as well as Hazard Community College and the Hazard Area Vocational, are associated. The superintendent of each local Board of Education serves on the Board of Directors. The following is a summary of the significant accounting policies followed in the preparation of these financial statements:

Grants: Funds to operate the Cooperative are obtained primarily from grant awards from the Kentucky Department of Education and through membership dues paid by local educational districts.

All grants are restricted, and may be used only for purposes specified by the grantor. Each grantor requires separate reporting of support and expenditures and changes in net assets applicable to its funding.

The Cooperative also restricts the use of grants received from state and local sources. These grants are listed also as temporarily restricted until restrictions have been satisfied and revenues and expenditures are recognized as such.

Basis of Accounting: The Cooperative prepares its financial statements using the accrual method.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Fixed Assets: The Cooperative records equipment expenditures based on the source of funds utilized to acquire such equipment.

##### Restricted Funds

Equipment is expensed due to grantor requirement that the title to equipment acquired with grantor funds remains with grantor.

#### NOTE B--PROGRAM DESCRIPTIONS

Adult Basic Education: The Adult Education is a regional program serving adult learners (16 years of age or older) in an eight county area consisting of Breathitt, Knott, Lee, Leslie, Letcher, Owsley and Perry. The Adult Education program provides services in the areas of GED instruction, Family Literacy, Employment Preparation, Literacy, Basic Skills Review and ESL. The program is funded by the Kentucky Department of Adult Education and Literacy based on a formula of the number of eligible adults in the eight county region.

## KENTUCKY VALLEY EDUCATIONAL COOPERATIVE

### NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2003

#### NOTE B--PROGRAM DESCRIPTIONS--CONTINUED

Middle School Drug Prevention/School Safety: The Middle School Drug Prevention/School Safety project was designed to effectively address challenging drug and violence issues and advance responsible behavior in students by using positive, proactive prevention and intervention strategies in a regional approach for 4,730 middle school students in 23 school communities in the KVEC service area of eastern Kentucky. Seven coordinators work with the schools in the following areas: identifying researched based drug and violence prevention programs; training teachers, staff and relevant partners as needed; developing, conducting, and analyzing assessments of school crime and drug problems; working with all relevant partners to obtain information about effective programs and strategies; and identifying additional funding sources for drug prevention and school safety programs.

Blind and Deaf Transportation: The KVEC Special Education Cooperative serves to coordinate the transportation needs of students in the 15 district region requiring transportation to the Kentucky School for the Blind and the Kentucky School for the Deaf. Districts contract with KVEC to provide transportation on an as-needed basis.

Special Education Cooperative: The KVEC Special Education Cooperative serves a 15 district area in eastern Kentucky. The KVECSE Cooperative provides district personnel with technical assistance, professional development, monitoring, communication, collaboration, and consultation on special education issues in the region. The KVECSE Cooperative receives funding from the Department of Education based on a formula of the number of eligible students in the designated area.

Professional Development: The professional development program at Kentucky Valley Educational Cooperative provides an essential component of the Kentucky Educational Reform Act, teacher and administrator training. The program provides all twelve-member districts with access to monthly meetings of principals, elementary, middle and high schools, and instructional supervisors. These meetings keep the administrators updated with educational information, instructional strategies and leadership development. Both administrator and teacher trainings follow Kentucky's professional development standards.

Reading Recovery: The KVEC Reading Recovery Program serves to provide certified and nationally recognized Reading Recovery training to educators in the KVEC service area. Districts contract with KVEC Reading Recovery to cover the cost of training, materials, travel and follow-up. The Cooperative also receives state funding to offset the cost of the full-time Reading Recovery Lead Teacher.

Strategic Teaching Initiative: The Strategic Teaching Initiative serves to assist schools and school districts in eastern Kentucky improve their ability to effectively teach students at high levels. Schools and districts contract with the Strategic Teaching Initiative on an as-needed basis to provide training, professional development and follow-up activities that focus primarily on reading and literacy.

## KENTUCKY VALLEY EDUCATIONAL COOPERATIVE

### NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2003

#### NOTE C--COMMITMENTS UNDER NON-CAPITALIZED LEASES

All lease agreements are operating leases. Annual commitments under operating leases consist of the building occupied by the Cooperative for \$10,000 per year on a year-to-year basis. Copy machines used by the Cooperative are under operating leases and require future minimum lease payments as follows:

2004	\$ 6,006
2005	6,006
2006	6,006
2007	<u>3,003</u>
	<u>\$ 21,021</u>

#### NOTE D--RETIREMENT PLANS

Certified employees are covered under the Kentucky Teachers' Retirement System (KTRS). Funding the plan is provided through payroll withholdings of 9.855% and matching state contributions. The matching contributions are paid by the Federal program for any salaries paid by the program.

The Cooperative's total payroll for the year was \$2,275,263. The Cooperative has a contribution requirement to KTRS of \$99,558 for certified and classified personnel. Benefits under the KTRS plan will vary based on final compensation, years of service and other factors as fully described in the plan document.

As the board is only one of several employers participating in the plan, it is not practical to determine the board's portion of the unfounded past service cost of the vested benefits of the board's portion of the plan assets.

Classified employees are covered under the County Employers Retirement System (CERS). Funding for the plan is provided through payroll withholdings of 5% and employer contributions of 6.41% of the employee's total compensation subject to contribution. The CERS contribution requirement for the year ended June 30, 2003 was \$63,578, which consisted of \$27,474 from the employees and \$36,104 from the board.

#### NOTE E--UNCERTAINTIES

The Cooperative receives funding from Federal, State, and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based on the grantor's review the funds are considered not to have been used for the intended purpose, the grantors may request a refund of money advanced, or refuse to reimburse the Cooperative for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the Cooperative's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

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## **SUPPLEMENTARY INFORMATION**



# KENTUCKY VALLEY EDUCATIONAL COOPERATIVE

## SCHEDULE OF REVENUES AND EXPENDITURES BY PROGRAM

Year ended June 30, 2003

	Administrative Development	Adult Basic Professional Education	Academic League	Blind and Deaf Transport	Special Education	Drug Prevention	Professional Development	Region 8		Strategic Teaching Initiative	Total
								Paid Workshop	Reading Academy		
<b>SUPPORT &amp; REVENUE</b>											
Local/District	\$ 149,414	\$ 16,883	\$ 28,000	\$ 55,973	\$ 449,385	\$ 45,379	\$ 110,386	\$ 8,015	\$ 6,000	\$ -	\$ 869,435
State Grants	12,507	850,374	-	-	-	-	-	-	5,677	54,554	971,809
Federal Grants	-	563,860	-	-	533,329	380,455	-	-	-	-	1,477,644
<b>Total support &amp; revenue</b>	<b>161,921</b>	<b>1,431,117</b>	<b>28,000</b>	<b>55,973</b>	<b>982,714</b>	<b>425,834</b>	<b>110,386</b>	<b>8,015</b>	<b>5,677</b>	<b>54,554</b>	<b>3,318,888</b>
<b>EXPENDITURES</b>											
Certified Salaries	45,925	431,414	4,800	16,332	703,974	276,040	91,177	-	-	30,000	1,651,685
Classified Personnel	10,423	564,678	-	-	42,632	-	-	-	-	5,846	623,579
FICA Tax	790	29,199	-	-	2,262	-	-	-	-	341	32,592
Medicare Tax	909	11,206	-	-	11,423	10,165	-	-	180	490	34,373
Teacher Retirement	-	3,048	-	-	45,148	31,839	-	-	-	-	80,035
County Retirement	994	41,899	-	-	4,235	-	-	-	-	377	47,505
Unemployment	198	9,545	-	-	9,450	1,230	-	-	-	335	20,758
Stipends	-	-	-	-	-	-	-	-	2,383	-	2,383
Professional Services	-	-	17,254	14,515	-	-	-	-	-	-	31,769
Contract (Evaluation)	-	-	-	-	1,201	-	-	-	-	-	1,201
Operations (Electric & Phone)	-	36,523	-	-	-	-	47	-	-	-	36,570
Copier	12,908	-	-	-	-	-	-	-	-	-	12,908
Phone	12,415	-	-	-	5,681	-	-	-	-	-	18,385
Postage	2,025	-	-	-	-	-	-	-	-	-	2,025
Printing & Publishing	-	-	-	-	5,587	-	-	-	2,623	-	8,210
Travel	6,687	21,573	-	3,533	62,246	11,186	12,406	-	-	2,513	128,833
Supplies	6,593	257,484	3,371	-	24,248	13,686	-	8,932	-	462	319,173
Furniture	-	7,687	-	-	-	-	-	-	-	-	7,687
Computers	-	54,238	-	-	-	-	-	-	-	-	54,238
Equipment	-	41,789	-	-	19,500	-	-	-	-	-	62,497
Registrations	508	-	-	-	-	-	-	-	-	-	3,982
Tag/Project Read Obligations	-	-	-	-	-	-	-	-	-	70,168	70,168
Miscellaneous	21,118	1,347	-	-	11,289	14,625	-	-	-	-	48,379
Professional Development	-	-	-	-	17,437	-	-	-	-	-	17,437
Interest	292	-	-	-	-	-	-	-	-	-	292
<b>Total expenditures</b>	<b>121,785</b>	<b>1,511,630</b>	<b>25,425</b>	<b>34,380</b>	<b>966,313</b>	<b>358,771</b>	<b>103,630</b>	<b>8,932</b>	<b>5,006</b>	<b>110,532</b>	<b>3,316,664</b>
<b>Excess (Deficiency) of Support and Revenue over Expenditures</b>	<b>\$ 40,136</b>	<b>\$ (80,513)</b>	<b>\$ 2,575</b>	<b>\$ 21,593</b>	<b>\$ 16,401</b>	<b>\$ 67,063</b>	<b>\$ 6,756</b>	<b>\$ (917)</b>	<b>\$ 671</b>	<b>\$(55,978)</b>	<b>\$ 2,224</b>

**KENTUCKY VALLEY EDUCATIONAL COOPERATIVE****SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Year Ended June 30, 2003

<u>Program Title</u>	<u>Federal CFDA No.</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>
<b><u>U.S. Department of Education</u></b>			
Passed through Kentucky Department of Education			
Adult Basic Education (ABE)	*84.002	DAEL-2001-078	\$ 434,472
Drug Prevention	*84.184	S184K010078	360,477
Special Education (IDEA)	*84.027	58100-04-Z	<u>538,792</u>
<b>Total U.S. Department of Education</b>			<u>1,333,741</u>
<b>Total Federal Expenditures</b>			<u>\$ 1,333,741</u>

\* Denotes major program

## **KENTUCKY VALLEY EDUCATIONAL COOPERATIVE**

### **NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

June 30, 2003

#### **NOTE A--BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Northern Kentucky Cooperative for Educational Services, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.



Certified Public Accountants and Advisors

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
Kentucky Valley Educational Cooperative

We have audited the financial statements of Kentucky Valley Educational Cooperative as of and for the year ended June 30, 2003, and have issued our report thereon dated December 15, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Kentucky Valley Educational Cooperative financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kentucky Valley Educational Cooperative's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of Kentucky Valley Educational Cooperative in a separate letter dated December 15, 2003.

This report is intended solely for the information and use of the members of the Board of Kentucky Valley Educational Cooperative, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specific parties. However, these reports are a matter of public record and their distribution is unlimited.

*Carpenter, Mountjoy & Bressler, PSC*

Louisville, Kentucky  
December 15, 2003

-11-

Carpenter, Mountjoy & Bressler, PSC  
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Certified Public Accountants and Advisors

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors  
Kentucky Valley Educational Cooperative

Compliance

We have audited the compliance of Kentucky Valley Educational Cooperative with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. Kentucky Valley Educational Cooperative's major federal program is identified in the Summary of Auditor's Results Section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of Kentucky Valley Educational Cooperative's management. Our responsibility is to express an opinion on Kentucky Valley Educational Cooperative's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of State, Local Governments and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Kentucky Valley Educational Cooperative's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Kentucky Valley Educational Cooperative's compliance with those requirements.

In our opinion, Kentucky Valley Educational Cooperative complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2003. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 03-1 through 03-3.

Internal Control Over Compliance

The management of Kentucky Valley Educational Cooperative is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Kentucky Valley Educational Cooperative's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the members of the Board of Kentucky Valley Educational Cooperative, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specific parties. However, these reports are a matter of public record and their distribution is unlimited.

*Carpenter, Montgomery & Breckler, PC*

Louisville, Kentucky  
December 15, 2003

**KENTUCKY VALLEY EDUCATIONAL COOPERATIVE****SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Year ended June 30, 2003

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**Section I-Summary of Auditor's Results**

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**Financial Statements**

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?           yes   X  no
- Reportable condition(s) identified that are not considered to be material weakness(es)?           yes   X  none reported
- Noncompliance material to financial statements noted?           yes   X  no

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified?           yes   X  no
- Reportable condition(s) identified that are not considered to be material weakness(es)?           yes   X  none reported

Type of auditor's report issued on compliance for major programs

Unqualified

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.002	ADULT BASIC EDUCATION
84.027	IDEA BASIC SPECIAL EDUCATION
84.184	DRUG PREVENTION

Dollar threshold used to distinguish

Between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee?

          yes   X  no

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**Section II-Financial Statement Audit Findings**

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No matters were reported.

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**Section III- Major Federal Award Program Audit Findings and Questioned Costs**

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	<u>Questioned Costs</u>
U.S. Department of Education	
03-1 Adult Basic Education – CFDA # 84.002 Documentation for four (4) expenditures could not be located.	\$ 88
03-2 Idea Basic Special Education – CFDA # 84.027 Documentation for two (2) expenditures could not be located.	\$ 48
03-3 Drug Prevention – CFDA # 84.184 Documentation for one (1) expenditure could not be located.	\$ 66

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